

# Cooperative Compliance: Improving Relationship between Taxpayers and Tax Authorities

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**Abstract**— The government has made a report on income tax from 1983. However, there is still sufficient taxes in Indonesia. This happens that occurs in several conditions, namely: the target of tax revenues that do not go price; low tax ratios still below the neighboring countries; low mandatory tax ratio; the practice of tax audit that has not been optimal and accurate, which determines which conditions are necessary for the mismatch between taxpayers and taxes.

This study aims to analyze audit tax in Indonesia by using the provisions of cooperative compliance. Where the tax comes from aspects of belief and aspects of transparency. This research uses post-positivism paradigm with qualitative method which also use operational concepts, with data technique in the form of literature study.

The conclusion of this research is that cooperative compliance is a new thing that can be used in the tax administration system to increase taxes. Based on experience from other countries, Indonesia has a chance to implement it, especially to evaluate tax tax. Keywords still need improvement in efforts to improve the quality of tax audits in Indonesia.

**Keywords**— Taxation, Compliance, Tax Compliance, Tax Audit, Cooperative Compliance

## I. INTRODUCTION

The World Bank estimates global economic growth will increase to 3.1 percent in 2018 after economic growth in 2017 is much stronger than expected<sup>[1]</sup>. The condition of the global economy that exists certainly also affects the condition of the Indonesian economy. The World Bank estimates Indonesia's economic growth in 2017 will reach 5.3 percent<sup>[2]</sup>. According to the World Bank, there will be an increase in the Indonesian economy driven by fiscal policy and business climate reform, as well as with the improved credibility of Indonesia's fiscal policy. Nevertheless, Indonesia still needs to speed up administrative reforms and tax policies to increase tax revenues.

Looking at the current global and Indonesian economic conditions, it is of course an important note for the government in optimizing tax revenue as one of the potential sources of state revenues in sustaining national economic growth through administrative reform and taxation policies. As one form of government commitment in optimizing tax revenue is through tax reform that has been started since 1983 where there are some changes in the profile of taxation Indonesia. The tax reform includes three pillars, namely tax policy, tax administration, and tax regulation<sup>[3]</sup>. One of the most significant updates that are key to the tax collection process is the tax administration reform.

Table 1. Contribution of Tax Receipts to State Revenues

Year	Tax Revenue	State Revenue	Percentage
2013	1.077.307	1.438.891	74.87%
2014	1.146.866	1.550.491	73.97%
2015	1.240.419	1.508.020	82.25%
2016	1.539.166	1.786.225	86.17%
2017	1.495.894	1.737.630	86.09%

Source: Data processed, 2018<sup>[4]</sup>

Tax revenues are crucial in the development process, especially as a developing country whose growth potential is predicted to increase in the future, in the context of state revenues still heavily dependent on tax revenues. This can be seen from the contribution of tax revenue in the state revenue structure in Table 1. It is clear that the portion of tax revenue in the state revenue structure is the most dominant, at 74-86% of the total state revenues annually. The small amount of tax revenue is also influenced by the quality of taxpayer compliance. Where taxpayer compliance is often interpreted as a situation where the taxpayer meets and performs tax obligations in accordance with applicable provisions<sup>[5]</sup>. If then linked to the context of self-assessment, it can be simplified into two things: formal compliance and material compliance. Unfortunately, the reality that occurred in Indonesia shows that the target of tax revenue that has not been reached in the last 5 years, even if seen from the percentage of achievement tends to decrease from the year 2012

(96.48%), 2013 (93.81%), 2014 (91, 99%), 2015 (82.98%) and a slight increase in 2016 (83.39%) as shown in Figure 1.

One of the main causes of not achieving the target of tax revenue is due to the low compliance of taxpayers in Indonesia. This can be seen from the stagnation of tax ratio which is still in the range of 12-13 percent and under other countries. Indonesia's tax ratio is still below Brazil (34 percent), South Africa (27 percent), South Korea (25 percent), Thailand (17 percent), Malaysia (16 percent) and the Philippines (14 percent) or middle-down (17 percent).<sup>[6]</sup>

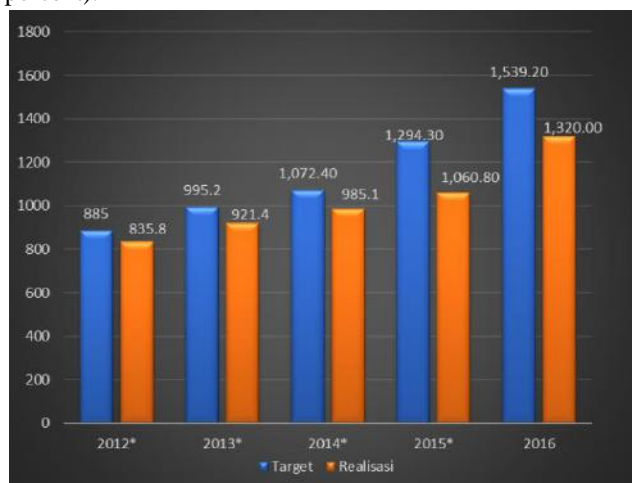


Fig.1: Realization of Tax Revenue Year 2012-2016

Directorate General of Taxation (DGT) must have implemented various policies, programs and supervision in increasing taxpayer compliance, one of which is the tax audit policy (tax audit). Kircher<sup>[8]</sup> states that the tax audit is the examination of individual or organizational tax reports by the relevant tax authorities to ensure compliance with applicable state tax and regulatory laws. Furthermore, the tax audit is a process in which the internal revenue service tries to confirm the amount entered on the tax return. In its journey, the practice of tax examination was still one of the sources of problems between the tax payers and tax inspectors. This can be seen from the tax disputes that almost every year has increased. By 2017, the number of disputes filed or addressed to the DGT reaches 568 disputes. This number increased significantly because in 2016 there was a decline of 374 disputes compared to the previous year. Decrease in dispute 2016 also occurred because of the implementation of tax forgiveness<sup>[9]</sup>. Disputes in the judiciary are also regarded as one of the contributors of uncertainty to the business world. The more disputes mean the business climate is increasingly uncertain. Even sometimes disrupt business activities of business actors. Director General of Taxation Robert Pakpahan said, to reduce the potential disputes of the tax authorities audit results, it will improve the quality of inspections that have been applied tax authorities.

One of the main objectives of the tax audit is to improve the level of voluntary compliance of taxpayer in Indonesia, where taxpayer is expected to fulfill its voluntary tax obligations in accordance with the prevailing regulations. Over the last four decades, both theoretical and empirical research on taxpayer compliance has been widely practiced. In general there are five categories that influence taxpayer compliance behavior, namely prevention, prevailing norms, opportunity, equity and economic factors.

Departing from these factors, which then followed by the dynamics of taxation challenges that exist in Indonesia would be a separate homework for tax authorities to be able to improve compliance taxpayer to a much better direction. Various efforts have been made by the government to improve taxpayer compliance, even the latest is the tax amnesty program and Automatic Exchange of Information (AEOI) was pursued to realize compliance taxpayer conducive. But in fact it is not enough to improve taxpayer compliance. Not enough if the estuary of the effort only affects administrative and technical compliance. So, now comes a new perspective in the form of compliance-based tax framework enhanced relationship or often called cooperative compliance. This perspective is appropriately used to redesign the tax system to ensure the sustainability of revenue while minimizing disputes.

Basically the concept of cooperative compliance refers to an "enhanced relationship" commonly known in the international tax scope around 2005 which the OECD results from a study, "Study into the Role of Tax Intermediaries". The concept of cooperative compliance to date has not been defined by the standard. The International Fiscal Association (IFA) proposes defining that "enhancing relationship" is described as a mutual institutional relationship, governed by a detailed provision and regulation whereby institutional parties voluntarily commit themselves to the agreement, mutual understanding and mutual understanding respect mutually agreed terms. With the mutual understanding of the parties, in the context of the implementation of tax administration, it is expected to create the efficiency of time, cost and other efforts through mutual respect and know the position, rights, authority and responsibility of each party.

This new paradigm of cooperative compliance requires a relationship built on transparency, participation, openness, mutual trust and understanding between taxpayers, tax authorities and tax consultants. Therefore, cooperative compliance enables more efficient tax collection in resource-limited situations, because it is a win-win oriented solution. And it also allows taxpayers to make quick business decisions and reduced examination costs, so that compliance increases. The implementation of cooperative compliance differs in every country. To know

the implementation in each country, it is necessary to understand some things like, first, historical compliance. Second, observe the problem of compliance between taxpayer, tax officer and loss / benefit obtained from the interaction. Often compliance issues are regarded as trivial, but this is part of a system where such complex tax laws and regulations are used as regulation. Thus, basically the nature of the system is quite complex, cooperative compliance is expected to be a middle way as a remedy that is a win-win solution for both taxpayers and tax officials. There are two aspects that will be derived from the concept of cooperative compliance to be examined, namely aspects of trust and transparency. There is general agreement on the definition of trust that is the desire of a group to take risks on the actions of others in the hope that the other party will take an important action for the group regardless of whether or not the group's ability to monitor or control the other party. While transparency is interpreted by Mardiasmo<sup>[10]</sup> that transparency is built on the basis of freedom in obtaining information. Information that can be obtained for those in need especially related to the public interest directly. Therefore, researchers try to explain some best practices of cooperative compliance in some countries, then discuss about the tax audit policy in Indonesia with cooperative compliance perspective.

## II. METHOD

This research is done by using post-positivism paradigm. Creswell<sup>[11]</sup> argues that post-positivism research has the essence of which is oriented to inquiry as a series of logical and interconnected steps and believes that the views emerging from many perspectives will be better than those from only one perspective. Furthermore, the operationalization of the concept is used as a framework for analyzing the subject matter that occurs in the form of tax audit policy evaluation, but does not aim to verify the correctness of the concept. The concept is solely used as a guide for preparing steps to make the inquiry clear and directed.

This study uses a qualitative method. Qualitative method was chosen because this study aims to evaluate tax audit policy in Indonesia in Cooperative Compliance perspective. The description and explanation will be described in the form of words based on a detailed report of the views of informants which are then arranged in a scientific setting. The selection of qualitative approach also refers to the opinion of Moleong<sup>[12]</sup> which explains that there are eleven characteristics in qualitative approaches such as using scientific background, human as main instrument, using qualitative method (observation, interview or documentation study) in capturing data, inductive data analysis, emphasis on process rather than outcomes, research problems are limited by focus, using the triangulation criterion in performing data validation,

using temporary designs and the results of research are the outcomes of negotiations that have been mutually agreed upon by humans who are the source of data.

In general, this study applies the qualitative method as described previously, which is accompanied by further decoding of the indicators in it gradually and rationally in the form of operationalization of the concept as a basis for analyzing the issues that have been formulated. The most important thing in the preparation of the operationalization of the concept is the generating of specific questions that will be used as inquiry guidance in the form of interviews to selected sources.

More specifically, this research is a descriptive study based on the basic question of "how", which is not only enough to know what the problem is, but also to know how the problem actually occurs<sup>[13]</sup>. Therefore, this research is focused on knowing how to evaluate tax audit policy in Indonesia with Cooperative Compliance perspective. To get an idea about this research and since this research has not reached the stage of field research, the data collection technique used is literature study. Therefore, the literature study in this study was conducted on various literatures, such as books, journals, scientific papers, and papers, related to the tax administration of valid and reliable sources, both in manual versions and in the network (online). Library study in this research is done by reading and studying various books or literature, papers, journals and others that have relevance to the research topic that is being done that is Cooperative Compliance and Tax Audit. This is done to develop a theoretical framework in determining the direction and purpose of the study. In addition, researchers also studied the existing provisions of both domestic and international relating to Cooperative Compliance and Tax Audit to study the context of the issues raised in this thesis in depth.

## III. RESULT AND DISCUSSION

### Australia

The implementation of cooperative compliance in Australia can be considered as a spinoff of some efforts for implementation by the end of the 20th century, when the Australian Taxation Office (ATO) adopted the enforcement pyramid approach. In addition, Australia is also regarded as part of the initiator of innovative solutions to issues related to compliance with tax obligations, tax risk management and minimal risk from tax authorities. At present, cooperative compliance in Australia is known as the Annual Compliance Arrangement (ACA) program initiated in 2008. The ACA is an administrative arrangement dedicated to managing compliance relationships in a transparent system. ACA is also designed primarily to accommodate the taxpayer to facilitate the implementation of tax obligations such as income tax, goods and service tax, excise and fringe

benefit or a combination of several types of tax obligations. In the implementation of ACA, required a disclosure and real time between the taxpayer and ATO to implement an arrangement. The output is a confirmation of the ACA signed by the ATO.

The concept of cooperative compliance developed by ATO in this context is the External Compliance Assurance Process (ECAP) which adopts the spirit of "enhancing the relationship". Currently, the Australian Government is in discussion to create a new approach to risk-assurance work that applies to listed companies that are listed in the stock exchange. This type of business entity is categorized as "medium-risk" and has a turnover of AUS 100 million to AUD 5 billion. The idea of the ECAP concept is that taxpayers that have been listed on the exchange and audited by an independent auditor may legitimately use the auditor's audit report to the ATO without any special review from the party acting as responsible for all the tax obligations of the company. Implementation of ESCAP is expected to reduce the burden of ATO, which ATO expected to be more focused to supervise taxpayers who are in the category of high-risk. In addition to reducing the burden of ATO, taxpayers in the medium risk category also benefit from saving time, effort and expense for the processing of tax obligations.

#### Netherlands

The Netherlands is one of the countries that always strive to establish good relationships with its taxpayers, especially for corporate taxpayers, although this country has been included in the category of countries that have obtained the predicate of good tax compliance. Cooperative compliance concept was applied since 2005 with horizontal monitoring program based on mutual trust with pilot project on 20 big taxpayers. The expected mutual trust is based on transparency and understanding within the context of TCF requiring the participation of the taxpayer.

Based on the report released by Committee Horizontal Monitoring 2012, there are two important points of concern for the implementation of the program, which is performance measurement and clarity of concept of TCF. Belastingdienst (the Dutch Tax and Customs Administration / DTCA) is in charge of preparing the process of measuring the effectiveness and efficiency of the horizontal monitoring process. In addition, the institute is also tasked to clarify the rules that were previously considered unclear and unmeasurable. In the process of implementation, DTCA is guided by the principle of check on the box behavior.

#### Indonesia

When the trend of developed countries to improve tax compliance through cooperative compliance, Indonesia is currently in the stage of modernization of tax administration is expected to increase taxpayers' trust on

tax administration. The study conducted by Nasucha<sup>[14]</sup>, taxpayer compliance level in Indonesia is at a level of concern. Based on a study conducted by the IMF, the factors contributing to the low taxpayer compliance in Indonesia are the complexity of regulation, uncertainty, extremely complex systems and inadequate tax services. In addition, the costs incurred to implement the tax obligations but not accompanied by the benefits received tend to encourage taxpayers to perform or plan to perform its tax obligations.

To improve taxpayer compliance and to encourage the productivity of taxation apparatus in Indonesia, the reformation and modernization of taxation, including (i) organization (ii) activities / task implementation and tax administration functions (iii) human resources are taken. Changes in the design of the organization of the Directorate General of Tax amended which previously focused on the type of tax to be levied into taxpayer approach. Prior to organizational re-classification with tax-based organization type was considered less efficient and duplication and overlapping of tasks occurred. Meanwhile, the functional-based organization with the characteristics of staffing based on its administrative functions such as the examination section and SPT research, the audit section, the collection section is considered better. Reorganization also establishes several types of tax service offices based on the contribution and size of the taxpayers, namely Large Taxpayer Officer (LTO), Medium Taxpayer Officer (MTO) and Small Taxpayer Officer (STO). In addition, the DGT also assigns Account Representatives (AR) tasked to provide information to taxpayers about important information related to the fulfillment of taxation rights and obligations, such as record data on taxation, notify tax regulations, monitor the reported tax return.

It is expected that the AR function can increase taxpayer compliance. In addition to the reorganization of DGT structures, simplification of rules and procedures is important in improving the effectiveness and efficiency of tax administration activities. For example, a letter of notification to reduce the administrative burdens imposed on tax officers and taxpayers. Utilization of technology is also expected to be maximized in order to encourage ease of administration. The costs incurred for tax collection are essentially on the rise. Expected increase in tax collection costs incurred by increased tax revenues one of the efforts to improve the effectiveness and efficiency of the DGT is to change the organizational culture to be more serviceable. Although the application of technology can improve the performance of bureaucracy, but the main control lies in each personal as a bureaucratic manager.

Another thing that should be a concern in terms of taxpayer compliance improvement with perspectives of cooperative compliance in Indonesia is the quality of tax



audit process. With regard to the quality of tax audit, Prof. Dr. Djazoeli Sadhani, MSc. said that checks should be continuous and focused. Then also guided by the references that exist in developed countries. At least it should be an average of 30% to 50% of DGT staff in time can be optimized for checks so they can develop better checks. Then about 2-7% of net revenue is the result of the examination. It means Taxpayers pay directly and do not file objections and appeals.

The ideal condition of the examination process should be continuous. Where the results of the examination will be effective if the process of determining the criteria taxpayers who checked to produce audit program can run well. The previous inspection process can even be forwarded in the following year as long as the completeness of the document is in full inspection. Then there needs to be a continuous evaluation from the Taxpayer profile to the business development that is in the audit report. There should also be a clear division of functions from the Head Office and the Examining Unit. The function of the head office is to create a concept for the implementing unit, allocate resources, the latest methods according to the current condition of the Taxpayer, also must be determined the techniques of examination and risk criteria.

Keyword management examination is focus and the opposite is unfocus if there is no object and do not know where to start the examination<sup>[15]</sup>. Inspection conducted on the Taxpayer who has entered the letter of notification or examination of the information already received in the DGT is a form of good inspection. Where in general letter of notification computerized processed to determine at least what points have been recorded in the system. In addition, the direction of the examination given to the tax office from the head office should not be confusing and contradictory even with too short a time. There needs to be an improvement on the tax administration system by making proper strategic checks and detailed checking techniques.

According to Djazoeli, examination is the core function of the tax authorities to assist tax administration. The essence of the pajaka examination is to be able to monitor the compliance of the taxpayer in carrying out the tax provisions. Next is to get income from the tax provisions that have not been executed by the taxpayer. So that taxpayers will be more preventive and appear deterrent effect where the taxpayer will still carry out the obligations of taxation without any examination.

Djazoeli added that there are three indicators of achievement of inspection objectives that are quantitative, revenue and quality. In quantitative terms, if the existing resources can be optimized to conduct examination of the taxpayer. Even an effective check is when only 7% of the registered taxpayer amount. The more inspection objects

the better. It should be noted also to avoid the conditions where there are taxpayers who are often checked and there are dozens of years not checked. Then the purpose of revenue is when revenue can be maximized and Taxpayers are willing to pay for the correction that has been done by the examiner. While the purpose of quality is if the comments of the review of the examination implementation even less, if there are still many comments then the quality is still low.

Therefore, there are some recommendation notes as an effort to improve the implementation of tax audit. First in terms of accountability and responsibility of managerial functions. It is better if the DGT uses a reference from experience in developed countries. Secondly, there is a need for an inspection strategy so that existing weaknesses can be avoided. Third, it is necessary to make notes on the improvements that will be made. Fourth, the results of the examination must also be reviewed continuously to be evaluated its performance. And it is also expected that collaboration of inspection activities that can be done with other institutions.

#### **IV. CONCLUSION**

The condition of the Indonesian economy which from year to year is predicted to increase will certainly be a good hope for the future of the nation. This condition can not be separated from the public participation in general in support of the improvement of the Indonesian economy, one of them through the obligation to pay taxes. As we all know that tax revenue is the main source of revenue in the structure of state revenue. This makes taxation a very important aspect to note, especially to ensure taxpayer compliance and tax receipts are always maintained according to targets set by the government. And one of the efforts of the government to improve taxpayer compliance so that tax revenue can be increased is through the process of tax audit. Looking at best practices from several other countries in an effort to improve tax compliance, there is one new perspective that is cooperative compliance that emphasizes the aspects of trust and transparency between taxpayers and tax authorities. Given the mutual trust and transparency of the parties, in the context of the implementation of tax administration, it is expected to create efficiency of time, cost and other efforts through mutual respect and know the position, rights, authority and responsibility of each party. The countries that have applied these perspectives quite well into the tax administration system is Australia and the Netherlands. And from the best practice the researchers tried to evaluate the tax audit policy with cooperative compliance perspective by using literature study. Where results obtained explain that the inspection process should be able to occur continuously and done in focus. Where the results of the examination will be effective if the process of

determining the criteria taxpayers who checked to produce audit program can run well. It also refers to existing guidelines in developed countries, how the inspection process is done. Keyword management examination is the focus in order to target the right object so know the inspection techniques to be done next. The simplest is to create a condition where the tax authorities can monitor taxpayer compliance in carrying out its tax obligations, as well as obtain optimal acceptance of the obligations that have been executed by the Taxpayer.

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